

Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Braman, CPA
Kyle E. Troyer, CPA

Herman A. Bertuleit, CPA

CITY OF WHITTEMORE
OSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED MARCH 31, 2008

AUDITORS' REPORT

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 7
<u>BASIC FINANCIAL STATEMENTS</u>	
<u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u>	
STATEMENT OF NET ASSETS	8
STATEMENT OF ACTIVITIES	9
<u>FUND FINANCIAL STATEMENTS</u>	
BALANCE SHEET - GOVERNMENTAL FUNDS	10
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	11
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	12
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	13
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUND	14
<u>NOTES TO FINANCIAL STATEMENTS</u>	15 - 26
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	27
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - MAJOR STREET FUND - SPECIAL REVENUE FUND	28
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - LOCAL STREET FUND - SPECIAL REVENUE FUND	29
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - FIRE FUND - SPECIAL REVENUE FUND	30
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GARBAGE COLLECTION FUND - SPECIAL REVENUE FUND	31
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	32 - 33



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle F. Troyer, CPA
Herman A. Bertulenti, CPA

July 28, 2008

Independent Auditors' Report

Members of the City Council
City of Whittemore
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Whittemore, Iosco County, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the City's basic financial statements, as listed in the index. These financial statements are the responsibility of the City of Whittemore's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Whittemore, Iosco County, Michigan, as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the City of Whittemore has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of March 31, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2008, on our consideration of the City of Whittemore's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.

CITY OF WHITEMORE

P.O. BOX 403

503 S. BULLOCK ST.

WHITEMORE, MICHIGAN 48770

989-756-3011 FAX 989-756-3011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of Whittemore's (the City) financial performance provides an overview of the City's financial activities for the year ended March 31, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole. The discussion focuses on the City's primary government. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34), omits certain comparative data that will be available in future years.

Financial Highlights

- The City's assets exceeded its liabilities by \$285,964.
- The City's total net assets increased by \$15,187.
- The City's governmental funds reported a combined ending fund balance of \$203,012 this year, an increase of \$18,513. Of this amount, \$184,169 is available for spending (*unreserved fund balance*) on behalf of its citizens. The City's General Fund 2007/2008 fiscal year end *fund balance* is \$101,687.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The City's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the City as a whole. These statements include the financial activities of the primary government except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services. The City does not currently have any business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

With this report, capital assets are listed for the City of Whittemore. These assets are comprised of buildings and improvements, machinery and equipment, and land owned by the City. These assets total over \$112,000.

Fund Financial Statements

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: *Governmental and Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state revenue.
- Major Street Fund – This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes.
- Local Street Fund – This fund is used to account for the maintenance and construction of the City's local street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes
- Fire Fund – This fund accounts for the receipt and expenditure of property taxes for fire department activities.
- Garbage Collection Fund – This fund is used to account for a special assessment levy for the purpose of providing garbage and rubbish collection.

Fiduciary Funds: Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency fund accounts for assets held by the City for political subdivisions in which the City acts as fiscal agent for taxes collected and distributed to other political subdivisions.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the City *government-wide* and *fund* financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

Government-Wide Financial Analysis

Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

Summary of Net Assets:

The following summarizes the net assets of the City of Whittemore at March 31, 2008:

Net Assets Summary

	<u>Governmental Activities</u>
Current Assets	\$ 206,304
Capital Assets – net	<u>82,952</u>
Total Assets	<u>289,256</u>
Current Liabilities	<u>3,292</u>
Net Assets	
Invested in Capital Assets	82,952
Restricted	18,843
Unrestricted	<u>184,169</u>
Total Net Assets	<u>\$ 285,964</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2008.

Generally speaking, the City's net assets represent the difference between assets and liabilities.

	<u>Governmental Activities</u>
Revenues:	
Program Revenues:	
Charges for Services	\$ 22,898
Operating Grants and Contributions	<u>26,512</u>
Total Program Revenues	<u>49,410</u>

	<u>Governmental Activities</u>
Revenues (Continued):	
General Revenues:	
Property Taxes	\$ 45,657
State Revenue Sharing	98,357
Interest and Investment Earnings	5,031
Other	<u>2,458</u>
Total General Revenues	<u>151,503</u>
Total Revenues	<u>200,913</u>
Program Expenses:	
General Government	69,016
Public Safety	6,944
Public Works	75,872
Recreation and Cultural	<u>33,894</u>
Total Program Expenses	<u>185,726</u>
Change in Net Assets	15,187
Beginning Net Assets	<u>270,777</u>
Ending Net Assets	<u><u>\$ 285,964</u></u>

Governmental Activities

With GASB 34 implementation, this new component of reporting reflects the *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$49,410 from *Charges for Services, and Operating Grants and Contributions*. The *Charges for Services* are fees for refuse collection and property tax collection fees. While revenue collected is substantial, operating expenses totaled \$185,726 for these same activities. The largest expenses were incurred by General Government offices (\$69,016), and Public Works (\$75,872).

Financial Analysis of City Funds

As noted earlier in this report, the City uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state revenue; 2) Major Street Fund – accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes; 3) Local Street Fund – accounts for the receipt

and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes; 4) Fire Fund – accounts for the receipt and expenditure of property taxes for fire department activities ; and 5) Garbage Collection Fund – accounts for a special assessment levy for the purpose of providing garbage and rubbish collection.

This year's City audit shows 7 funds. These funds are maintained by the City Treasurer as separate units in the General Ledger.

Budgetary Highlights

The City's budgets are prepared according to Michigan law. The most significant budgeted funds are the General, Major Street, Local Street, Fire, and Equipment Funds.

During the fiscal year ended March 31, 2008, the City amended the budgets of their major governmental funds a couple of times, none significantly.

General Fund

The General Fund actual revenue was \$129,359. That amount is above both the original budget estimate of \$115,550 and the final amended budget estimate of \$128,702.

The actual expenditures of the General Fund were \$111,377, which is below both the original budget estimate of \$115,550 and final amended budget estimate of \$114,276.

The General Fund had total revenues of \$129,359 and total expenditures of \$111,377 with an ending fund balance of \$101,687.

Major Street Fund

The Major Street Fund actual revenue was \$31,281. That amount is above the original budget estimate of \$29,450 and below final amended budget estimate of \$31,365.

The actual expenditures of the Major Street Fund were \$28,189, which is above both the original budget estimate of \$21,950 and the final amended budget estimate of \$25,941.

The Major Street Fund had total revenues of \$31,281 and total expenditures of \$28,189 with an ending fund balance of \$43,525.

Local Street Fund

The Local Street Fund actual revenue was \$11,783. That amount is above the original budget estimate of 11,600 and below the final amended budget estimate of \$11,814.

The actual expenditures of the Local Street Fund were \$15,324, which is below the original budget estimate of \$19,100 and above the final amended budget estimate of \$13,232.

The Local Street Fund had total revenues of \$11,783 and total expenditures of \$15,324 with an ending fund balance of \$25,934.

Fire Fund

The Fire Fund actual revenue was \$6,944. That amount is below the original budget estimate of \$7,000 and above the final amended budget estimate of \$6,800.

The actual expenditures of the Fire Fund were \$6,944, which is below both the original budget estimate of \$7,000 and the final amended budget estimate of \$7,892.

The Fire Fund had total revenues of \$6,944 and total expenditures of \$6,944 with an ending fund balance of \$0.

Garbage Collection Fund

The Garbage Collection Fund actual revenue was \$21,105. That amount is equal to the original budget estimate of \$21,105 and below final amended budget estimate of \$21,315.

The actual expenditures of the Garbage Collection Fund were \$20,566, which is below both the original and final amended budget estimate of \$21,105.

The Garbage Collection Fund had total revenues of \$21,105 and total expenditures of \$20,566 with an ending fund balance of \$16,366.

Capital Assets

Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Capital Assets – Governmental Activities beginning and ending balance was \$112,918. Governmental Activities Total Capital Assets – Net of Depreciation was \$82,952.

Economic Factors and Next Year's Budget and Rates

The City Council and City staff work together to maintain revenue sources and control expenditures. Property taxes and state revenue account for approximately 76% of the City's general fund revenue.

Revenue sharing from the State of Michigan is beyond the control of the City. The City uses undesignated fund balances to cover any shortfalls. The City's General Fund realized a 22% increase in fund balance in fiscal year 2007-2008 and these funds will be used to cover any short falls in revenues.

The City Council and City staff will continue to monitor revenues and expenditures due to ongoing economic conditions.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Whittemore's City Clerk's office located at 503 South Bullock, Whittemore, MI 48770-0403.

CITY OF WHITTEMORE
Iosco County, Michigan

STATEMENT OF NET ASSETS
March 31, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ 145,854
Investments (Note 3)	15,653
Receivables:	
Property Taxes	8,353
Special Assessments	4,305
Due from Fiduciary Funds (Note 4)	32,139
Noncurrent Assets:	
Capital Assets, Net (Note 5)	<u>82,952</u>
Total Assets	<u>289,256</u>
<u>Liabilities</u>	
Accounts Payable	1,791
Due to Other Units of Government	1,354
Accrued Liabilities	<u>147</u>
Total Liabilities	<u>3,292</u>
<u>Net Assets</u>	
Invested in Capital Assets	82,952
Restricted For:	
Library	3,343
Perpetual Care	15,500
Unrestricted	<u>184,169</u>
Total Net Assets	\$ <u><u>285,964</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WHITTEMORE
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2008

Function/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government
				Governmental Activities
<u>Primary Government</u>				
Governmental Activities:				
General Government:				
Legislative and Executive	\$ 26,011	\$ 0	\$ 0	\$ (26,011)
Financial and Tax Administration	22,285	1,793	0	(20,492)
Other General Government	20,720	0	0	(20,720)
Public Safety:				
Fire	6,944	0	0	(6,944)
Public Works:				
Other Public Works	75,872	21,105	0	(54,767)
Recreation and Cultural	<u>33,894</u>	<u>0</u>	<u>26,512</u>	<u>(7,382)</u>
Total Governmental Activities	<u>\$ 185,726</u>	<u>\$ 22,898</u>	<u>\$ 26,512</u>	<u>(136,316)</u>
General Revenue:				
Property Taxes Levied For:				
General Operating				38,713
Fire Protection				6,944
State Revenue Sharing				98,357
Interest and Investment Earnings				5,031
Other				<u>2,458</u>
Total General Revenue				<u>151,503</u>
Change in Net Assets				15,187
Net Assets - Beginning				<u>270,777</u>
Net Assets - Ending				<u>\$ 285,964</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WHITTEMORE
Iosco County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2008

	General Fund	Major Street Fund	Local Street Fund	Fire Fund	Garbage Collection Fund	Other Governmental Fund Cemetery Perpetual Care Fund	Total Governmental Funds
<u>ASSETS</u>							
Cash and Cash Equivalents (Note 3)	\$ 62,543	\$ 43,525	\$ 25,934	\$ 0	\$ 13,852	\$ 0	\$ 145,854
Investments (Note 3)	0	0	0	0	0	15,653	15,653
Receivables:							
Property Taxes	6,999	0	0	1,354	0	0	8,353
Special Assessments	0	0	0	0	4,305	0	4,305
Due from Other Funds (Note 4)	<u>32,292</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>32,292</u>
Total Assets	<u>\$ 101,834</u>	<u>\$ 43,525</u>	<u>\$ 25,934</u>	<u>\$ 1,354</u>	<u>\$ 18,157</u>	<u>\$ 15,653</u>	<u>\$ 206,457</u>
<u>LIABILITIES AND FUND EQUITY</u>							
<u>Liabilities</u>							
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,791	\$ 0	\$ 1,791
Due to Other Funds (Note 4)	0	0	0	0	0	153	153
Due to Other Units of Government	0	0	0	1,354	0	0	1,354
Accrued Liabilities	<u>147</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>147</u>
Total Liabilities	<u>147</u>	<u>0</u>	<u>0</u>	<u>1,354</u>	<u>1,791</u>	<u>153</u>	<u>3,445</u>
<u>Fund Equity</u>							
Fund Balances:							
Reserved For:							
Library Activities	3,343	0	0	0	0	0	3,343
Perpetual Care	0	0	0	0	0	15,500	15,500
Unreserved:							
Undesignated, Reported In:							
General Fund	98,344	0	0	0	0	0	98,344
Special Revenue Funds	<u>0</u>	<u>43,525</u>	<u>25,934</u>	<u>0</u>	<u>16,366</u>	<u>0</u>	<u>85,825</u>
Total Fund Equity	<u>101,687</u>	<u>43,525</u>	<u>25,934</u>	<u>0</u>	<u>16,366</u>	<u>15,500</u>	<u>203,012</u>
Total Liabilities and Fund Equity	<u>\$ 101,834</u>	<u>\$ 43,525</u>	<u>\$ 25,934</u>	<u>\$ 1,354</u>	<u>\$ 18,157</u>	<u>\$ 15,653</u>	<u>\$ 206,457</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WHITTEMORE
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
March 31, 2008

Total Governmental Fund Balances		\$	203,012
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital Asset Cost	\$	112,918	
Accumulated Depreciation		<u>(29,966)</u>	
			<u>82,952</u>
Total Net Assets - Governmental Activities		\$	<u><u>285,964</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WHITTEMORE
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended March 31, 2008

	General Fund	Major Street Fund	Local Street Fund	Fire Fund	Garbage Collection Fund	Other Governmental Fund Cemetery Perpetual Care Fund	Total Governmental Funds
<u>Revenue</u>							
Property Taxes	\$ 40,506	\$ 0	\$ 0	\$ 6,944	\$ 0	\$ 0	\$ 47,450
State Grants and Revenue	57,461	29,906	10,990	0	0	0	98,357
Contributions from Local Units	26,172	0	0	0	0	0	26,172
Interest and Rentals	2,422	1,375	793	0	0	441	5,031
Special Assessments	0	0	0	0	21,105	0	21,105
Other Revenue	2,798	0	0	0	0	0	2,798
Total Revenue	<u>129,359</u>	<u>31,281</u>	<u>11,783</u>	<u>6,944</u>	<u>21,105</u>	<u>441</u>	<u>200,913</u>
<u>Expenditures</u>							
Current:							
General Government:							
Legislative	16,794	0	0	0	0	0	16,794
Chief Executive	7,585	0	0	0	0	0	7,585
Financial and Tax Administration	20,289	0	0	0	0	0	20,289
Other General Government	14,477	0	0	0	0	0	14,477
Public Safety	0	0	0	6,944	0	0	6,944
Public Works	9,323	28,189	15,324	0	20,566	0	73,402
Recreation and Cultural	30,057	0	0	0	0	0	30,057
Other	12,852	0	0	0	0	0	12,852
Total Expenditures	<u>111,377</u>	<u>28,189</u>	<u>15,324</u>	<u>6,944</u>	<u>20,566</u>	<u>0</u>	<u>182,400</u>
Excess of Revenue Over (Under) Expenditures	<u>17,982</u>	<u>3,092</u>	<u>(3,541)</u>	<u>0</u>	<u>539</u>	<u>441</u>	<u>18,513</u>
<u>Other Financing Sources (Uses)</u>							
Operating Transfers In	441	0	7,088	0	0	0	7,529
Operating Transfers Out	<u>0</u>	<u>(7,088)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(441)</u>	<u>(7,529)</u>
Total Other Financing Sources (Uses)	<u>441</u>	<u>(7,088)</u>	<u>7,088</u>	<u>0</u>	<u>0</u>	<u>(441)</u>	<u>0</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	18,423	(3,996)	3,547	0	539	0	18,513
Fund Balances - Beginning of Year	<u>83,264</u>	<u>47,521</u>	<u>22,387</u>	<u>0</u>	<u>15,827</u>	<u>15,500</u>	<u>184,499</u>
Fund Balances - End of Year	<u>\$ 101,687</u>	<u>\$ 43,525</u>	<u>\$ 25,934</u>	<u>\$ 0</u>	<u>\$ 16,366</u>	<u>\$ 15,500</u>	<u>\$ 203,012</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WHITTEMORE
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2008

Total Net Change in Fund Balances - Governmental Funds	\$	18,513
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Current Year Depreciation Expense		<u>(3,326)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>15,187</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WHITTEMORE
Iosco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
March 31, 2008

	<u>Tax Account Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents (Note 3)	\$ <u><u>32,268</u></u>
<u>LIABILITIES</u>	
Due to Other Units of Government	\$ 129
Due to Other Funds (Note 4)	<u>32,139</u>
Total Liabilities	\$ <u><u>32,268</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Whittemore (City) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of City Operations and Fund Types

The City of Whittemore operates under an elected City Council and provides services to its residents in many areas including fire protection, maintenance of major and local streets, refuse collection, street lighting, and provision for library. All activities over which the City exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs of services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The City does not have any component units.

C. Joint Venture

The City has entered into one joint venture with various municipalities described as follows:

The B.R.W. Fire Board

The B.R.W. Fire Board was established as a joint venture between the City of Whittemore, the Township of Burleigh and the Township of Reno. The Board was established to provide fire protection services to the constituent municipalities. The City's contribution for the year ended March 31, 2008 was \$6,944. Complete financial statements can be obtained from the B.R.W. Fire Board's office located in the City of Whittemore fire hall, Whittemore, Michigan.

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support. The City does not currently have any business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

E. Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

General Fund - This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state revenue.

Major Street Fund - This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes.

Local Street Fund - This fund is used to account for the maintenance and construction of the City's local street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes.

Fire Fund - This fund accounts for the receipt and expenditure of property taxes for fire department activities.

Garbage Collection Fund - This fund is used to account for a special assessment levy for the purpose of providing garbage and rubbish collection.

The other governmental fund of the City accounts for interest and other resources whose use is restricted for a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency fund accounts for assets held by the City for political subdivisions in which the City acts as fiscal agent for others. The City uses this fund to account for property tax collections.

F. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: licenses and permits, state-levied locally shared taxes (including sales tax), interest and grants.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Receivables

Receivables generally consist of accounts (fees), property taxes, special assessments, and interest. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at March 31, 2008 was \$0.

J. Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities are eliminated on the government-wide statement of net assets. Balances due from/to fiduciary funds and component units are reported on the government-wide statement of net assets.

K. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Estimated Lives</u>
Buildings and Improvements	25 - 50 years
Land Improvements	10 - 20 years
Machinery and Equipment	5 - 10 years

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Governmental Fund Balance Reserves

The City reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for future library and perpetual care expenses.

O. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/ expenses to the funds that initially paid for them are not presented on the financial statements.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended March 31, 2008.

Q. Budgets and Budgetary Accounting

The City of Whittemore normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to March 1, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following April 1. This operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the City Council throughout the operating year.

The City adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the City are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Budgets and Budgetary Accounting (Continued)

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the City Council.

R. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

Change in Accounting Principles

For 2008, the City has implemented Governmental Accounting Standards Board (GASB) Statement Number 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" in their entirety as required by the Local Audit and Finance Division of the Treasury Department of the State of Michigan.

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting. The government-wide financial statements split the City's programs between governmental activities and business type activities. The City does not currently have any business-type activities.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 145,854	\$ 32,268	\$ 178,122
Investments	<u>15,653</u>	<u>0</u>	<u>15,653</u>
Total	<u>\$ 161,507</u>	<u>\$ 32,268</u>	<u>\$ 193,775</u>

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking Accounts and Certificates of Deposit)	\$ <u>193,775</u>

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of March 31, 2008, \$84,711 of the City's bank balance of \$200,364 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Interest Rate Risk and Foreign Currency Risk

The City's investment policy does not address interest rate risk and foreign currency risk.

Investments

The City Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- Accounts of federally insured banks, credit unions and savings and loan associations
- Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- United States government or federal agency obligation repurchase agreements
- Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits and investments are in accordance with statutory authority.

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of March 31, 2008 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 32,292	\$ 0
Non-major Governmental Funds	0	153
Fiduciary Funds	<u>0</u>	<u>32,139</u>
	<u>\$ 32,292</u>	<u>\$ 32,292</u>

The amounts of interfund receivables and payables for individual funds as of March 31, 2008 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 153	Cemetery Perpetual Care Fund	\$ 153
General Fund	<u>32,139</u>	Tax Account Fund	<u>32,139</u>
Total	<u>\$ 32,292</u>	Total	<u>\$ 32,292</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended March 31, 2008, was as follows:

	<u>Balance 04/01/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 03/31/08</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 55,345	\$ 0	\$ 0	\$ 55,345
Capital Assets Being Depreciated:				
Buildings and Improvements	45,223	0	0	45,223
Machinery and Equipment	<u>12,350</u>	<u>0</u>	<u>0</u>	<u>12,350</u>
Subtotal	<u>57,573</u>	<u>0</u>	<u>0</u>	<u>57,573</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(25,405)	(856)	0	(26,261)
Machinery and Equipment	<u>(1,235)</u>	<u>(2,470)</u>	<u>0</u>	<u>(3,705)</u>
Subtotal	<u>(26,640)</u>	<u>(3,326)</u>	<u>0</u>	<u>(29,966)</u>
Capital Assets Being Depreciated	<u>30,933</u>	<u>(3,326)</u>	<u>0</u>	<u>27,607</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 86,278</u>	<u>\$ (3,326)</u>	<u>\$ 0</u>	<u>\$ 82,952</u>

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities

General Government:

Other General Government	\$ 354
Public Works	2,470
Recreation and Cultural	<u>502</u>

Total Governmental Activities	\$ <u><u>3,326</u></u>
-------------------------------	------------------------

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the City. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the City was \$4,811,410. The 2007 operating tax rates are currently 8.0540 mills for operations and 1.4433 for fire protection.

NOTE 7 - OPERATING TRANSFERS

During the year ended March 31, 2008, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 441	\$ 0
Major Street Fund	0	7,088
Local Street Fund	<u>7,088</u>	<u>0</u>
Total Major Funds	7,529	7,088
Non-major Governmental Funds	<u>0</u>	<u>441</u>
	<u>\$ 7,529</u>	<u>\$ 7,529</u>

During the year ended March 31, 2008, the following individual fund transfers were made:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General Fund	\$ 441	Cemetery Perpetual Care Fund	\$ 441
Local Street Fund	<u>7,088</u>	Major Street Fund	<u>7,088</u>
Total	<u>\$ 7,529</u>	Total	<u>\$ 7,529</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 8 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted at the line item level.

During the year ended March 31, 2008, the City incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Fund/Activity</u>	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
General Fund/Legislative	\$ 16,679	\$ 16,794	\$ 115
General Fund/Financial and Tax Administration	\$ 20,089	\$ 20,289	\$ 200
General Fund/Other General Government	\$ 14,027	\$ 14,477	\$ 450
General Fund/Other	\$ 11,085	\$ 12,852	\$ 1,767
Major Street Fund/Public Works	\$ 25,941	\$ 28,189	\$ 2,248
Local Street Fund/Public Works	\$ 13,232	\$ 15,324	\$ 2,092

NOTE 9 - RETIREMENT PLAN

The City has a defined contribution pension plan of which all employees are eligible to participate. The plan is operated through Auto Owners Insurance Company.

A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, are at least age 18 but not more than age 75.

The City is required to contribute an amount equal to 12% of the employee's gross earnings.

During the year, the City's required contributions amounted to \$8,895 which is 12% of its current year covered payroll. The City's actual contributions amounted to \$8,895.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its employees.

NOTE 10 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. Accrued unemployment compensation was \$0 as of March 31, 2008.

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2008

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries and natural disasters. The City has purchased commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WHITTEMORE
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended March 31, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 36,000	\$ 39,650	\$ 40,506	\$ 856
State Grants and Revenue	48,900	57,462	57,461	(1)
Contributions from Local Units	26,000	26,172	26,172	0
Interest and Rentals	3,000	2,960	2,422	(538)
Other Revenue	1,650	2,458	2,798	340
Total Revenue	<u>115,550</u>	<u>128,702</u>	<u>129,359</u>	<u>657</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	20,225	16,679	16,794	(115)
Chief Executive	7,775	7,585	7,585	0
Financial and Tax Administration	21,050	20,089	20,289	(200)
Other General Government	15,125	14,027	14,477	(450)
Public Works	10,000	9,878	9,323	555
Recreation and Cultural	26,000	34,933	30,057	4,876
Other	9,950	11,085	12,852	(1,767)
Capital Outlay	5,425	0	0	0
Total Expenditures	<u>115,550</u>	<u>114,276</u>	<u>111,377</u>	<u>2,899</u>
Excess of Revenue Over Expenditures	0	14,426	17,982	3,556
<u>Other Financing Sources</u>				
Operating Transfers In	<u>0</u>	<u>0</u>	<u>441</u>	<u>441</u>
Excess of Revenue and Other Sources Over Expenditures	0	14,426	18,423	3,997
Fund Balances - Beginning of Year	<u>83,264</u>	<u>83,264</u>	<u>83,264</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 83,264</u>	<u>\$ 97,690</u>	<u>\$ 101,687</u>	<u>\$ 3,997</u>

CITY OF WHITTEMORE
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
State Grants and Revenue	\$ 28,000	\$ 29,906	\$ 29,906	\$ 0
Interest and Rentals	<u>1,450</u>	<u>1,459</u>	<u>1,375</u>	<u>(84)</u>
Total Revenue	29,450	31,365	31,281	(84)
<u>Expenditures</u>				
Current:				
Public Works	<u>21,950</u>	<u>25,941</u>	<u>28,189</u>	<u>(2,248)</u>
Excess of Revenue Over (Under) Expenditures	<u>7,500</u>	<u>5,424</u>	<u>3,092</u>	<u>(2,332)</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	0	1,778	0	(1,778)
Operating Transfers Out	<u>(7,500)</u>	<u>(7,088)</u>	<u>(7,088)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(7,500)</u>	<u>(5,310)</u>	<u>(7,088)</u>	<u>(1,778)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	0	114	(3,996)	(4,110)
Fund Balances - Beginning of Year	<u>47,521</u>	<u>47,521</u>	<u>47,521</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 47,521</u>	<u>\$ 47,635</u>	<u>\$ 43,525</u>	<u>\$ (4,110)</u>

CITY OF WHITTEMORE
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREET FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
State Grants and Revenue	\$ 11,000	\$ 10,990	\$ 10,990	\$ 0
Interest and Rentals	<u>600</u>	<u>824</u>	<u>793</u>	<u>(31)</u>
Total Revenue	11,600	11,814	11,783	(31)
<u>Expenditures</u>				
Current:				
Public Works	<u>19,100</u>	<u>13,232</u>	<u>15,324</u>	<u>(2,092)</u>
Excess of Revenue Over (Under) Expenditures	(7,500)	(1,418)	(3,541)	(2,123)
<u>Other Financing Sources</u>				
Operating Transfers In	<u>7,500</u>	<u>7,088</u>	<u>7,088</u>	<u>0</u>
Excess of Revenue and Other Sources Over (Under) Expenditures	0	5,670	3,547	(2,123)
Fund Balances - Beginning of Year	<u>22,387</u>	<u>22,387</u>	<u>22,387</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 22,387</u>	<u>\$ 28,057</u>	<u>\$ 25,934</u>	<u>\$ (2,123)</u>

CITY OF WHITTEMORE
Iosco County, Michigan

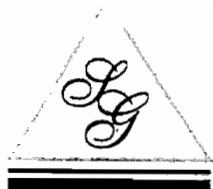
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FIRE FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2008

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Property Taxes	\$ <u>7,000</u>	\$ <u>6,800</u>	\$ <u>6,944</u>	\$ <u>144</u>
<u>Expenditures</u>				
Current:				
Public Safety	<u>7,000</u>	<u>7,892</u>	<u>6,944</u>	<u>948</u>
Excess of Revenue Over (Under) Expenditures	0	(1,092)	0	1,092
Fund Balances - Beginning of Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances - End of Year	\$ <u><u>0</u></u>	\$ <u><u>(1,092)</u></u>	\$ <u><u>0</u></u>	\$ <u><u>1,092</u></u>

CITY OF WHITTEMORE
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GARBAGE COLLECTION FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2008

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Special Assessments	\$ <u>21,105</u>	\$ <u>21,315</u>	\$ <u>21,105</u>	\$ <u>(210)</u>
<u>Expenditures</u>				
Current:				
Public Works	<u>21,105</u>	<u>21,105</u>	<u>20,566</u>	<u>539</u>
Excess of Revenue Over Expenditures	0	210	539	329
Fund Balances - Beginning of Year	<u>15,827</u>	<u>15,827</u>	<u>15,827</u>	<u>0</u>
Fund Balances - End of Year	\$ <u><u>15,827</u></u>	\$ <u><u>16,037</u></u>	\$ <u><u>16,366</u></u>	\$ <u><u>329</u></u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
—
Herman A. Bertulett, CPA

July 28, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the City Council
City of Whittemore
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Whittemore, Iosco County, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the City of Whittemore's basic financial statements and have issued our report thereon dated July 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Whittemore's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Whittemore's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Whittemore's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Whittemore's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Whittemore's financial statements that is more than inconsequential will not be prevented or detected by the City of Whittemore's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Financial Statement Preparation

The City of Whittemore prepares various financial information throughout the year to assess operations and the financial condition of the City. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the City relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Members of the City Council
City of Whittemore
July 28, 2008

The City of Whittemore has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the City is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the City would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Whittemore's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Whittemore's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of the City of Whittemore in a separate letter dated July 28, 2008.

View of Responsible Officials and Planned Corrective Actions:

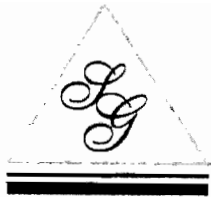
Financial Statement Presentation

The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

The City of Whittemore's response to the finding identified in our audit is described above. We did not audit the City of Whittemore's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Members of the City Council, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grubb & Co., P.C.



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Trover, CPA
Herman A. Bertuleit, CPA

July 28, 2008

Members of the City Council
City of Whittemore
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Whittemore for the year ended March 31, 2008, and have issued our report thereon dated July 28, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated March 06, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Whittemore. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Whittemore's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 04, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Whittemore are described in Note 1 to the financial statements. As described in Note 2, the City of Whittemore has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of March 31, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The audit adjustments, which include material misstatements detected as a result of audit procedures, were provided to and corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 28, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the City of Whittemore for the year ended March 31, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. As a result of our consideration of the internal controls and tests of compliance as described in the third and fourth paragraphs, we offer the following recommendations for consideration.

Financial Statement Preparation

The City of Whittemore prepares various financial information throughout the year to assess operations and the financial condition of the City. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the City relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The City of Whittemore has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the City is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the City would not be in a position to detect the errors or omissions.

Budget Control

We noted that the City's General Fund, Major Street Fund, and Local Street Fund included expenditures in various activities that exceeded appropriated amounts. We recommend that the City Council continue to amend the budgets for all funds periodically as needed and take into consideration recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of City of Whittemore.

This information is intended solely for the use of management, the Members of the City Council, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grain & Co., P.C.